AR22

superior 1973 ANNUAL REPORT

SUPERIOR ELECTRONICS INDUSTRIES LTD.

Corporate Information

GENERAL COUNSEL
Phillips & Vineberg of Montreal

AUDITORS
Riddell, Stead & Co.

REGISTRAR AND TRANSFER AGENT
The Royal Trust Company
630 Dorchester Blvd. W.
Montreal, Quebec

EXECUTIVE OFFICES
1330 Trans-Canada Highway South
Dorval 740, Quebec

MAJOR FACILITIES
Picture Tube Production
2255 Dandurand Street
Montreal 331, Quebec

Research & Development Laboratories
2255 Dandurand Street
Montreal 331, Quebec

Warehouses & Administrative Offices
1330 Trans-Canada Highway South
Dorval 740, Quebec

265 Norseman
Etobicoke, Ontario

Vancouver, B.C. (Fall, 1973)

SALES OFFICES
Moncton, New Brunswick
Montreal, Quebec
Toronto, Ontario
Winnipeg, Manitoba
Vancouver, British Columbia

OWNERSHIP

SUPERIOR ELECTRONICS INDUSTRIES LTD.
Canadian public company listed on the Montreal Stock Exchange (SEI)

MULTI-STATE DEVICES LTD.
Joint Venture with Canada Wire and Cable Company, Limited, a subsidiary of Noranda Mines Limited

AR22

Report to the Shareholders for the Six Months ended September 30, 1973

superior
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superior
superior



superior electronics.
From Superior Electronics.

superior electronics industries ltd., montreal, quebec

superior electronics industries ltd.

superior electronics industries ltd.
and subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS

(Subject to Audit and Year-End Adjustment)

	Six Months Ended September 30th 1973	1972
Sales	$4,466,064	$3,831,157
Earnings before undernoted items	177,195	107,446
Income taxes	83,300	52,777
Earnings before extraordinary item	93,895	54,669
Reduction of current period's income taxes on application of prior year's losses	68,000	—
Earnings for the period	$ 161,895	$ 54,669
Earnings per share before extraordinary item	5.2¢	4.3¢
Earnings per share	9.0¢	4.3¢
Weighted average number of shares outstanding	1,791,426	1,267,134

CONSOLIDATED STATEMENT OF SOURCE & USE OF FUNDS

(Subject to Audit and Year-End adjustments)

	Six Months Ended September 30th 1973	1972
SOURCE OF FUNDS		
Earnings for the period	$ 161,895	$ 54,669
Items not requiring an outlay of funds:		
Depreciation & Amortization	40,345	28,185
Decrease in deferred charges	8,940	6,172
	211,180	89,026
USE OF FUNDS		
Additions to fixed assets — Net	7,165	9,104
Decrease in long term debt	46,560	53,110
Payment as additional consideration for company pooled in prior years	28,827	—
	82,552	62,214
Increase in working capital	128,628	26,812
Working capital March 31st	2,883,300	1,551,478
Working capital September 30th	$3,011,928	$1,578,290

EXECUTIVE COMMENTS

REPORT TO SHAREHOLDERS

Your management is pleased to report that the second quarter has continued to reflect the promising outlook envisioned in our first quarter report to you.

SALES AND MARKETING

Sales for the second quarter were 19.1% ahead of the comparable quarter last year. For the six months, we are ahead 16.6%. Domestically, the addition of new product lines has strengthened and broadened our market penetration. We are investigating the addition of further lines on a continuous basis which will contribute to our further growth. Exports by our manufacturing division of picture tubes to England and West Germany and electron gun mounts to South America have played and will continue to play an important role in our total marketing effort. October has maintained the trend and the outlook for the balance of the year is most promising.

OPERATIONS AND EARNINGS

On an annualized basis, the first half historically accounts for approximately 40% of sales and 25% of earnings before income taxes. Indicative that costs have been held well in line is the fact that earnings increased 65% over last year although sales, as noted above, only increased 16.6%. After taking advantage of our favourable tax position, net earnings have almost tripled. Notwithstanding a 41% increase in shares outstanding, earnings per share have increased by 20.9% on a fully taxed basis and have more than doubled after reflecting our favourable tax position.

FINANCIAL HIGHLIGHTS

Working capital is in excess of $3,000,000 for the first time in the history of your company and is almost double what it was a year ago. This amounts to $1.68 per share outstanding. Shareholder's equity approximates $3,700,000 and equals $2.05 per share outstanding. This underlying financial strength should enable us to carry out our planned program of growth and expansion.

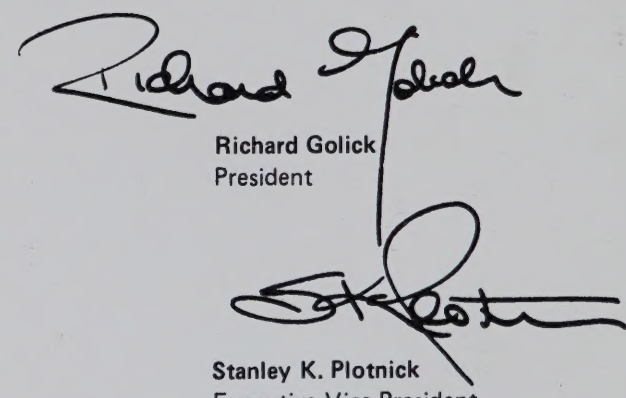
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GROWTH AND OUTLOOK

Additions to our product lines, broader sales coverage nationally, development of export sales, the transformation of Multi-State from a research effort into a viable commercial operation, control of operating costs and the strengthening of our financial reporting systems — all these factors, plus confidence in our ability to take advantage of a buoyant world-wide economy, make us optimistic for the balance of this year as well as next year.

Respectfully submitted,



Richard Golick
President

Stanley K. Plotnick
Executive Vice-President

Montreal, Nov. 5th, 1973

AR22

SUPERIOR ELECTRONICS INDUSTRIES LTD.

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OE EARNINGS
(Subject to Audit and Year-End Adjustments)

	SIX MONTHS ENDED SEPTEMBER 30TH	
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AND SUBSIDIARIES

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(Subject to Audit and Year-End adjustments)

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News From
superior electronics industries ltd

subject: FIRST HALF RESULTS - SEPTEMBER 30, 1973

contact: M.R. LEVINE-VICE PRESIDENT FINANCE (514)
1330 TRANS CANADA HIGHWAY SOUTH, 683-6331
DORVAL, P.Q. H9P 1H8

release: IMMEDIATE - OCTOBER 31, 1973

Net earnings of $161,898 or 9¢ per share were recorded by Superior Electronics Industries Ltd. for the six months ended September 30 after reflecting their favourable tax position. This compares to $54,699 or 4.3¢ per share for the corresponding period last year. On a fully taxed basis earnings per share were ahead of last year by 21% at 5.3¢ per share notwithstanding a 41% increase in shares outstanding.

Sales at $4.5 million were 17% ahead of last year's $3.8 million. The addition of new product lines has strengthened and broadened market penetration therefore this trend is expected to continue for the balance of the year.

Richard Golick, President of Superior drew attention to the fact that working capital was now in excess of $3,000,000 and Shareholder's equity at $3.7 million, was equal to $2.05 per share outstanding. This underlying financial strength should enable the company to carry out its planned program of growth and expansion.

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Superior electronics industries ltd.

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superior electronics industries ltd.

subject: PRESIDENT'S REPORT TO SHAREHOLDERS
SIX MONTHS ENDED SEPTEMBER 30, 1973

contact: M.R. LEVINE-VICE PRESIDENT FINANCE
1330 TRANS CANADA HIGHWAY SOUTH,
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SIX MONTHS ENDED SEPTEMBER 30, 1973

contact:

release:

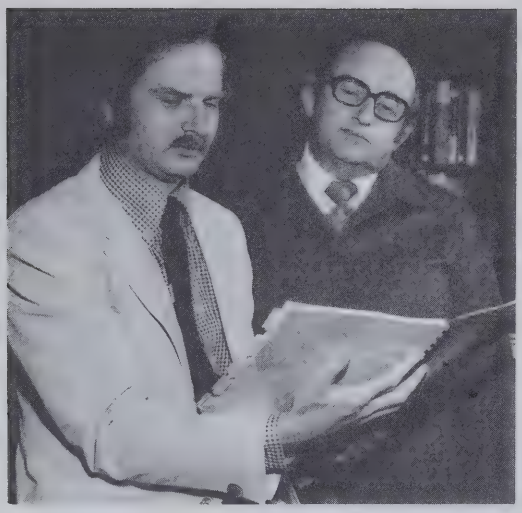
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Additions to our product lines; broader sales coverage nationally; development of export sales; the transformation of Multi-State from a research effort into a viable commercial operation; control of operating costs and the strengthening of our financial reporting systems: all these factors, plus confidence in our ability to take advantage of a buoyant world-wide economy, make us optimistic for the balance of this year as well as next year.

Report to Shareholders



We are pleased to report that 1972-73 was a very good year for our Company. We achieved and exceeded our sales, gross profits and net profit objectives.

FINANCIAL HIGHLIGHTS

Sales reached an all time high of $9,287,927, an increase of 14% over last year. Although we showed a pre-tax operating profit during 1971-72, income taxes, inventory adjustments and extraordinary charges placed us in a deficit position. Our position has improved considerably. After tax earnings are $395,026 or 28.2¢ per share. We are naturally taking full advantage of our substantial tax loss carry forward position and will continue to do so during the coming year. Even if we had not enjoyed this favourable tax position, profits of $246,026 or 17.6¢ a share fully taxed would still have been recorded.

Our progress and improved performance are reflected in increased financial strength. Our working capital ratio has risen from 1.375 last year to 1.95 this year. This 86% increase brings our working capital to $2,883,300. At the same time, our net worth has advanced 60% over last year to the present high of $3,530,000.

OPERATIONS

Parts and Accessories Division

Performance of all divisions has improved. The picture tube sector of our business operated profitably despite the reduced volume. Significant reductions in inventories related to this portion of our business were affected. Sales volume of other products of the Parts and Accessories Division showed at least moderate increases with certain selected lines showing exceptional growth.

Increased concentration on the Parts and Accessories Division should provide for much greater growth and profitability during the coming year. We've already succeeded in developing some export business for color replacement picture tubes. We are also looking forward to the growth of color picture tube sales in the Canadian market. Black and White picture tube sales, on the other hand, will decline but at a gradually decreasing level.

Consumer Products Division

Another area which has brought gratifying results was our Consumer Products Division. Here sales increased by 50%. Essential stocks of inventories were purchased from the Far East prior to the year end to reflect the expected continuation of great growth in sales and in anticipation of increasing prices and monetary instability.

Special Applications Division

Our Special Application Electronics Division climaxed a banner year with the sale of a major portion of the test equipment for the new Welland Stelform Pipe Mill of The Steel Company of Canada. This very substantial sale coupled with the welcome addition of the Branson line of test equipment resulted in an increase of more than 100% in the sales volume of this Division. We enter the new year with a record level of orders on hand. Concurrently, we have made substantial developments in new proprietary products that are being exposed to world markets. These factors, along with the addition of a new highly talented staff, leads to the conclusion that this Division will continue to report sound performance during the coming period.

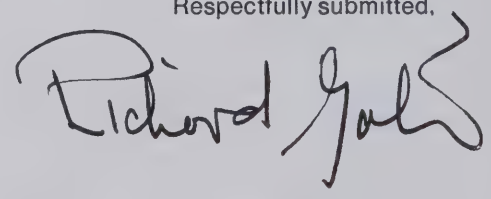
Advanced Technology Division

Multi-State Devices Ltd., which is jointly owned by Canada Wire and Cable Company, Limited and ourselves has progressed to the point that it has received and shipped orders for substantial quantities of devices from commercial customers. The Company is now offering three distinct families of devices — temperature sensors, thermal couplers and solid state relays. Extensive marketing efforts on all of these devices coupled with a sampling program to a large number of users leads us to look forward to a growing industrial acceptance for these products. In addition, the research program has uncovered new high temperature materials which hold substantial future promise.

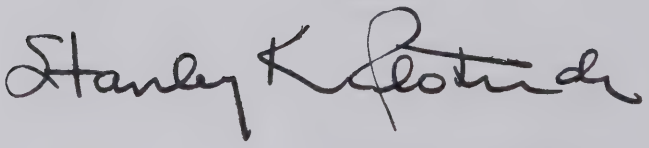
We look forward with confidence to the coming year.

We gratefully acknowledge the cooperation of our entire staff and the confidence that our Shareholders have shown in Superior.

Respectfully submitted,



RICHARD GOLICK
President



STANLEY K. PLOTNICK
Executive Vice-President

SUPERIOR ELECTRONICS INDUSTRIES LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS FOR THE YEAR ENDED MARCH 31, 1973

	1973	1972
SALES	**$9,287,927**	$8,138,628
COST OF GOODS SOLD AND OPERATING EXPENSES BEFORE UNDERNOTED ITEMS	**8,634,912**	7,661,750
	653,015	476,878
Depreciation and amortization	**93,775**	136,600
Interest on long-term debt	**66,231**	34,108
	160,006	170,708
Earnings before income taxes, inventory adjustment and extraordinary items	**493,009**	306,170
Income taxes (Note 2)	**246,983**	114,940
Earnings before inventory adjustment and extraordinary items	**246,026**	191,230
Inventory adjustment (Note 10)	**—**	(416,431)
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS	**246,026**	(225,201)
EXTRAORDINARY ITEMS		
Reduction of current year's income taxes on application of prior years' losses (Note 2)	**149,000**	—
Extraordinary items (Note 10)	**—**	(42,431)
EARNINGS (LOSS) FOR THE YEAR	**395,026**	(267,632)
Retained earnings at beginning of year	**297,019**	575,457
Payment as additional consideration for company pooled in prior period	**—**	(10,806)
RETAINED EARNINGS AT END OF YEAR	**$ 692,045**	$ 297,019
EARNINGS PER SHARE (Note 3)		
Earnings per share before inventory adjustment and extraordinary items	**17.6¢**	15.5¢
Earnings (loss) per share before extraordinary items	**17.6¢**	(18.3¢)
Earnings (loss) per share	**28.2¢**	(21.7¢)

SUPERIOR ELECTRONICS INDUSTRIES LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1973

	1973	1972
ASSETS		
CURRENT ASSETS		
Accounts receivable	**$2,312,612**	$2,277,239
Accounts receivable — government agencies	**—**	107,553
Inventories (Note 4)	**3,526,026**	3,263,640
Prepaid expense	**77,549**	86,088
	5,916,187	5,734,520
INVESTMENT IN SUBSIDIARY COMPANY — at cost (Note 1)	**419,912**	419,912
PROPERTY, PLANT AND EQUIPMENT — at cost		
Land and buildings	**281,114**	281,114
Leasehold improvements	**254,252**	266,602
Machinery and equipment	**1,028,597**	1,024,944
	1,563,963	1,572,660
Accumulated depreciation	**907,431**	850,752
	656,532	721,908
ORGANIZATION EXPENSE AND DEFERRED CHARGES	**41,006**	54,818
	$7,033,637	$6,931,158

SIGNED ON BEHALF OF THE BOARD:

Richard Galin *Director*

Stanley Kalotinsky *Director*

	1973	1972
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 5)	**$1,985,086**	$2,453,579
Accounts payable and accrued liabilities	**836,316**	1,427,535
Current portion of long-term debt	**93,120**	106,220
Income taxes payable	**118,365**	195,708
	3,032,887	4,183,042
LONG-TERM DEBT (Note 6)	**426,800**	509,680
DEFERRED INCOME TAXES	**43,090**	35,729
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 7)		
Authorized 2,000,000 common shares no par value		
Issued 1,734,536 shares (1972—1,267,134)	**2,834,815**	1,901,688
RETAINED EARNINGS	**692,045**	297,019
CONTRIBUTED SURPLUS	**4,000**	4,000
	3,530,860	2,202,707
	$7,033,637	$6,931,158

SUPERIOR ELECTRONICS INDUSTRIES LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED MARCH 31, 1973

SOURCE OF FUNDS	1973	1972
Net earnings (loss) for the year	**$ 395,026**	($ 267,632)
Items not requiring an outlay of funds		
Depreciation and amortization	**93,775**	136,600
Deferred income taxes	**7,361**	(78,588)
Loss on disposal of fixed assets	**6,731**	—
Cancellation of balance due to Department of Industry, Trade and Commerce (P.A.I.T.)	**—**	(191,778)
Research and development expenditures written off	**—**	142,301
Funds from operations	**502,893**	(259,097)
Proceeds from sale of common shares	**933,127**	399,558
Decrease (increase) in current portion of long-term debt	**13,100**	(80,135)
Decrease in deferred charges	**13,812**	—
Issue of long-term debt	**—**	642,352
Other	**—**	27,733
	1,462,932	730,411
APPLICATION OF FUNDS		
Additions to fixed assets	**35,130**	201,523
Retirement of long-term debt	**95,980**	238,977
Additions to deferred research expenditures — net of government grants	**—**	64,102
Increase in deferred charges	**—**	43,414
Redemption of preferred shares	**—**	22,130
	131,110	570,146
INCREASE IN WORKING CAPITAL	**1,331,822**	160,265
Working capital at beginning of year	**1,551,478**	1,391,213
WORKING CAPITAL AT END OF YEAR	**$2,883,300**	$1,551,478

AUDITORS' REPORT

To the Shareholders
Superior Electronics Industries Ltd.

We have examined the consolidated balance sheet of Superior Electronics Industries Ltd. and its subsidiary companies as at March 31, 1973 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1973 and the results of their operations and source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The 1972 financial statements were examined by another firm of chartered accountanis.

Montreal,
June 5, 1973

RIDDELL, STEAD & CO.
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT MARCH 31, 1973

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies, with the exception of Multi-State Devices Ltd. (69% owned) whose nature of business is different from the operations of the parent company and other subsidiaries. The Company is in the research and development stage and to date incurred neither profits nor losses.

In connection with the acquisition in 1970 of Electro Physical Instruments Ltd. the Company has certain contractual obligations. The Company is obligated to pay an indeterminate amount of cash and issue shares based upon the acquired company achieving a level of earnings above a stipulated minimum amount. The number of shares to be issued is also dependent upon the market value of the Company's common shares.

2. INCOME TAXES

The Company has losses for tax purposes of approximately $415,000 which are available to be applied against taxable income of future years, provided such income is earned not later than the year ending March 31, 1977.

3. EARNINGS PER COMMON SHARE

Earnings per common share have been calculated using the weighted average number of shares outstanding during the year. With respect to earnings per share assuming full dilution, the exercise of all share purchase warrants and stock options would not have resulted in any significant dilution of earnings per share after taking into consideration additional income calculated at a reasonable return on the funds that would have been realized on their exercise.

4. INVENTORIES

Inventories are valued at the lower of cost or net realizable value and are classified as follows:

	1973	1972
Raw materials	**$ 296,854**	$ 516,522
Work in process	**107,495**	22,483
Finished goods	**3,121,677**	2,724,635
	$3,526,026	$3,263,640

5. BANK INDEBTEDNESS

The parent company and subsidiaries have secured their bank indebtedness by a general assignment of book debts. In addition the bank holds trust deeds in the amount of $3,300,000 representing a floating charge on all the assets of the companies involved and is subject to any priorities which may arise from the debt as disclosed in Note 6.

6. LONG-TERM DEBT

Loan at 11.3%, payable in equal monthly instalments of $7,760 plus interest, last payment due in 1978. This loan is secured by a fixed and floating charge on the fixed assets of the companies.

7. CAPITAL STOCK

(a) During the year the Company issued 467,402 shares for $933,127.

(b) There are 100,000 common share warrants outstanding: 40,000 are exercisable to July 31, 1979 at $3.00 per share; 40,000 to November 30, 1974 at varying prices of $3.00 - $3.50 per share; and 20,000 to January 15, 1978 at $6.75 per share.

(c) Employees have been granted option to purchase 48,036 common shares. Of this amount 22,160 is exercisable to November 1975 at $2.70 per share and 25,876 are exercisable at the rate of 8,624 in each of the years from 1973 to 1975 inclusive at $2.25 per share. Senior officers of the Company have been granted 29,076 of these options.

(d) As part of an agreement with Canada Wire and Cable Company, Limited relating to the subscription by Canada Wire to shares of Multi-State Devices Ltd., Canada Wire holds options to purchase 61,516 common shares of the Company during 1973. In addition thereto, the Company granted to Canada Wire options to acquire such additional number of common shares of the Company during 1974 as may be purchased by a dollar amount equal to the number of shares of Multi-State Devices Ltd. purchased by Canada Wire in 1974, at a price per share equal to the average closing price of the common shares of the Company on the Montreal Stock Exchange during the period August 1 — November 30, 1973.

8. LEASE COMMITMENTS

The Company and its subsidiaries occupy manufacturing, warehousing and office space under several long-term leases at an annual rental of approximately $106,000 expiring 1991.

9. STATUTORY INFORMATION	1973	1972
Number of directors	9	8
Directors' remuneration as directors	$ 1,808	$ 3,000
Number of officers, including officers who are also directors	7	7
Officers' remuneration	$218,392	$201,913
Number of officers who are also directors	5	5

10. NOTES APPLICABLE TO 1972

(a) Inventory Adjustment

Due to withdrawal from the U.S. market and the closing down of the U.S. subsidiary, it was necessary in the opinion of Management, to adjust inventory values by reflecting a non-recurring write down of $416,431 as a charge in the statement of earnings.

(b) Extraordinary Items

The extraordinary items consist of the following:

(i) Net cost of withdrawal from the U.S. market and closing down operations of the U.S. subsidiary	$123,391
(ii) Balance of deferred research expenditures which were previously being amortized over a ten year period including recovery of prior year's deferred taxes of $31,483	110,818
(iii) Waiver of balance due to the Department of Industry, Trade and Commerce	(191,778)
	$ 42,431

Corporate Personnel

Directors[1] and Officers[2]

SUPERIOR ELECTRONICS INDUSTRIES LTD.

Lawrence S. Bloomberg[1]
Director, Research Department
Nesbitt, Thompson and Company, Limited

William Cohen[1, 2]
Vice-President, Commercial Operations
Superior Electronics Industries Ltd.

Norman Friedman[2]
Secretary-Treasurer
Superior Electronics Industries Ltd.

Richard Golick[1, 2]
President
Superior Electronics Industries Ltd.

L. Lamont Gordon[1]
President
Gordon Securities Limited

M. R. Levine[2]
Vice-President, Finance
Superior Electronics Industries Ltd.

Lothar J. Lewinson[1, 2]
Vice-President, Manufacturing
Superior Electronics Industries Ltd.

Stanley K. Plotnick[1, 2]
Executive Vice-President
Superior Electronics Industries Ltd.

John F. Roch[1, 2]
Vice-President, Special Applications Division
Superior Electronics Industries Ltd.

J. Hugh Stevens[1]
President
Canada Wire and Cable Company, Limited

Robert S. Vineberg[1]
Attorney, Phillips & Vineberg

MULTI STATE DEVICES LTD.

Dr. Robert E. Bell[1]
Principal and Vice Chancellor
McGill University

William G. Deeks[1]
Executive Vice-President
Noranda Sales Corporation Ltd.

John A. Dossett[1]
Vice-President, Finance
Canada Wire and Cable Company, Limited

Gérard Filion[1]
President
Marine Industries Limited

Richard Golick[1, 2]
President
Multi-State Devices Ltd.

M. R. Levine[2]
Secretary-Treasurer
Multi-State Devices Ltd.

Stanley K. Plotnick[1, 2]
Vice-President
Multi-State Devices Ltd.

Charles T. Plough[1, 2]
Vice-President and Director of Research
Multi-State Devices Ltd.

John A. Pollock[1]
President
Electrohome Limited

J. Hugh Stevens[1]
President
Canada Wire and Cable Company, Limited

Operational Managers

Jack C. Browman
Director of Purchasing
Superior Electronics Industries Ltd.

Sydney Goldstein
Marketing Manager, Parts & Accessories Division, Superior Electronics Industries Ltd.

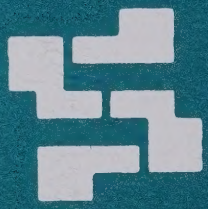
Fred J. Koczi
Operations Manager
Superior Electronics Industries Ltd.

G. Denis Magnan
National Sales Manager, Parts & Accessories Division
Superior Electronics Industries Ltd.

Richard I. Maran
Director of Marketing
Multi-State Devices Ltd.

William P. McErlain
Controller
Superior Electronics Industries Ltd.

Brett Zuber
Project Manager, Special Applications Division
Superior Electronics Industries Ltd.



Superior Electronics Industries Ltd.

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